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UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549



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ANNUAL AUDITED REPORT  
FORM X-17A-5  
PART III

FACING PAGE

Information Required of Brokers and Dealers Pursuant to Section 17 of the  
Securities Exchange Act of 1934 and Rule 17a-5 Thereunder

OMB APPROVAL	
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Washington, DC

SEC FILE NUMBER

8-14715

REPORT FOR THE PERIOD BEGINNING 01/01/11 AND ENDING 12/31/11  
MM/DD/YY MM/DD/YY

A. REGISTRANT IDENTIFICATION

NAME OF BROKER-DEALER: Hornor Townsend & Kent, Inc.

OFFICIAL USE ONLY

ADDRESS OF PRINCIPAL PLACE OF BUSINESS: (Do not use P.O. Box No.)

FIRM ID NO.

600 Dresher Road

(No. and Street)

Horsham

(City)

Pennsylvania

(State)

19044

(Zip Code)

NAME AND TELEPHONE NUMBER OF PERSON TO CONTACT IN REGARD TO THIS REPORT

Stacey N. Polakowski

(215) 956 - 8208

(Area Code - Telephone No.)

B. ACCOUNTANT IDENTIFICATION

INDEPENDENT PUBLIC ACCOUNTANT whose opinion is contained in this Report \*

PricewaterhouseCoopers LLP

(Name -- if individual, state last, first, middle name)

Two Commerce Square Suite 1700

(Address)

Philadelphia

(City)

Pennsylvania

(State)

19103

(Zip Code)

CHECK ONE:

- ☒ Certified Public Accountant  
☐ Public Accountant  
☐ Accountant not resident in United States or any of its possessions

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\* Claims for exemption from the requirement that the annual report be covered by the opinion of an independent public accountant must be supported by a statement of facts and circumstances relied on as the basis for exemption. See section 240.17a-5(e)(2).

SEC 1410 (06-02)

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a currently valid OMB number.

AP  
3/13

## OATH OR AFFIRMATION

I, Michelle A. Barry, swear (or affirm) that, to the best of my knowledge and belief the accompanying financial statement and supporting schedules pertaining to the firm of Hornor Townsend & Kent, Inc., as of December 31, 2011, are true and correct. I further swear (or affirm) that neither the company nor any partner, proprietor, principal officer or director has any proprietary interest in any account classified solely as that of a customer, except as follows:

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

### COMMONWEALTH OF PENNSYLVANIA

#### Notarial Seal

Marianne C. Bechtel, Notary Public  
Horsham Twp., Montgomery County  
My Commission Expires Dec. 26, 2013

Member, Pennsylvania Association of Notaries

Marianne C. Bechtel  
Notary Public

Michelle A. Barry  
Signature

CEO/President

Title

This report \*\* contains (check all applicable boxes)

- ☒ (a) Facing Page.
- ☒ (b) Statement of Financial Condition.
- ☒ (c) Statement of Income (Loss).
- ☒ (d) Statement of Changes in Financial Condition
- ☒ (e) Statement of Changes in Stockholders' Equity or Partners' or Sole Proprietors' Capital.
- ☒ (f) Statement of Changes in Liabilities Subordinated to Claims of Creditors.
- ☒ (g) Computation of Net Capital
- ☐ (h) Computation for Determination of Reserve Requirements Pursuant to Rule 15c3-3.
- ☐ (i) Information Relating to the Possession or Control Requirements Under Rule 15c3-3.
- ☐ (j) A Reconciliation, including appropriate explanation, of the Computation of Net Capital Under Rule 15c3-1 and the Computation for Determination of the Reserve Requirements Under Exhibit A of Rule 15c3-3.
- ☐ (k) A Reconciliation between the audited and unaudited Statements of Financial Condition with respect to methods of consolidation.
- ☒ (l) An Oath or Affirmation.
- ☒ (m) A copy of the SIPC Supplemental Report
- ☒ (n) A report describing any material inadequacies found to exist or found to have existed since the date of the previous audit.

\*\* For conditions of confidential treatment of certain portions of this filing, see section 240.17a-5(e)(3).

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**Hornor, Townsend &  
Kent, Inc. and Subsidiary**  
Consolidated Statement of Financial Condition  
December 31, 2011



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**Hornor, Townsend &  
Kent, Inc. and Subsidiary**  
Consolidated Statement of Financial Condition  
December 31, 2011

**Hornor, Townsend & Kent, Inc. and Subsidiary**  
**Index**  
**December 31, 2011**

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	<b>Page(s)</b>
<b>Report of Independent Auditors</b> .....	<b>1</b>
<b>Financial Statements</b>	
Consolidated Statement of Financial Condition.....	<b>2</b>
Notes to Consolidated Statement of Financial Condition .....	<b>3-8</b>



## Report of Independent Auditors

To the Board of Directors and Stockholder of  
Hornor, Townsend & Kent, Inc. and Subsidiary:

In our opinion, the accompanying consolidated statement of financial condition presents fairly, in all material respects, the financial position of Hornor, Townsend & Kent, Inc. and Subsidiary (the "Company") at December 31, 2011, in conformity with accounting principles generally accepted in the United States of America. This financial statement is the responsibility of the Company's management; our responsibility is to express an opinion on this financial statement based on our audit. We conducted our audit of this statement in accordance with auditing standards generally accepted in the United States of America, which require that we plan and perform the audit to obtain reasonable assurance about whether the statement of financial condition is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the statement of financial condition, assessing the accounting principles used and significant estimates made by management, and evaluating the overall statement of financial condition presentation. We believe that our audit of the statement of financial condition provides a reasonable basis for our opinion.

*PricewaterhouseCoopers LLP*

February 24, 2012

**Hornor, Townsend & Kent, Inc. and Subsidiary**  
**Consolidated Statement of Financial Condition**  
**December 31, 2011**

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**Assets**

Cash and cash equivalents	\$ 8,164,497
Restricted cash for the exclusive benefit of customers	1,000,000
Deposits with clearing organizations	70,029
Receivables from brokers/dealers and clearing organizations	2,157,511
Commissions receivable	1,216,582
Equipment and capitalized software, at cost (net of accumulated depreciation of \$586,435)	4,098
Prepaid expenses	741,042
Broker loans and advances	1,833,334
Other assets	418,289
Federal tax receivable	140,074
Deferred tax asset	339,348
<b>Total assets</b>	<b>\$ 16,084,804</b>

**Liabilities and Stockholder's Equity**

**Liabilities**

Commissions payable	\$ 2,541,645
Accounts payable and accrued expenses	2,100,309
Payable to Affiliate	130,865
Securities sold not yet purchased, at market value	5,116
<b>Total liabilities</b>	<b>4,777,935</b>

**Stockholder's Equity**

Common stock, \$1.00 par value; 1,000 shares authorized, issued and outstanding	\$ 1,000
Additional paid-in capital	31,158,264
Accumulated deficit	(19,852,395)
<b>Total stockholder's equity</b>	<b>11,306,869</b>
<b>Total liabilities and stockholder's equity</b>	<b>\$ 16,084,804</b>

The accompanying notes are an integral part of this consolidated financial statement.

**Hornor, Townsend & Kent, Inc.**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2011**

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**1. Organization and Basis of Presentation**

Hornor, Townsend & Kent, Inc. (the "Company") is an introducing broker-dealer registered with the Securities and Exchange Commission ("SEC"), a member of the Financial Industry Regulatory Authority, the Depository Trust Clearing Corporation and the National Securities Clearing Corporation. The Company is a wholly owned subsidiary of The Penn Mutual Life Insurance Company ("Penn Mutual"). The Company has one wholly owned Subsidiary, HTK Insurance Agency, Inc. This subsidiary performs duties in relation to insurance related selling requirements. All intercompany balances and transactions are eliminated in consolidation. The Company selects, trains, and supervises personnel of Penn Mutual and independent registered representatives in connection with the sale of registered products.

As of December 31, 2011, the Company had an accumulated deficit of \$19,852,395. The Company's operations are funded primarily by capital contributions from its parent, Penn Mutual. Penn Mutual would provide any incremental capital to fund the Company's ongoing business operations, to the extent that such capital is not generated through the Company's normal operating activities.

The accompanying consolidated financial statements have been prepared in conformity with accounting principles generally accepted in the United States.

**2. Summary of Significant Accounting Policies**

**Cash and Cash Equivalents**

Cash and cash equivalents include cash and money market instruments.

**Restricted Cash for the Exclusive Benefit of Customers**

Restricted Cash represents cash in a bank account established for the benefit of customers.

**Deposits with Clearing Organizations**

Deposits with clearing organizations include \$50,000 in deposits with Pershing LLC, the Company's clearing organization and \$20,029 with the Depository Trust Clearing Corporation.

**Receivable from Broker/Dealers and Clearing Organization**

Receivable from broker/dealers and clearing organization contains a receivable from Pershing, LLC in the amount of \$1,443,390 at December 31, 2011. The Company clears certain of its customer transactions through Pershing, LLC on a fully disclosed basis. The amount receivable from the clearing broker relates to commissions and other fees earned for the aforementioned transactions. It also contains a 12b-1 receivable related to various mutual fund carriers for \$687,371 for business processed directly with those carriers.

**Equipment and Capitalized Software**

Equipment and capitalized software are recorded on a historical cost basis and is depreciated on a straight-line basis over the estimated useful lives of the assets, generally three years.

**Securities Transactions**

Securities transactions and related commissions are recorded on a trade-date basis.

**Annuities Sales**

Annuities transactions and related commissions are recorded upon acceptance by the insurance company.



**Hornor, Townsend & Kent, Inc.**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2011**

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**Investment Advisory Income**

Investment Advisory Income is received monthly or quarterly and is recognized as earned per the terms of the contracts.

**Interest Income**

Interest income is received monthly and is recognized as earned.

**Federal Income Taxes**

The Company files a consolidated federal income tax return with Penn Mutual. Federal income taxes are charged or credited to operations based upon amounts estimated to be payable or recoverable as a result of taxable operations for the current year. The federal income tax provision or benefit is limited to the extent the Company's results of operations increase or decrease the consolidated tax liabilities of Penn Mutual pursuant to a tax sharing agreement with Penn Mutual. The Company receives or pays these items through Penn Mutual on at least a quarterly basis. In the absence of this agreement, the Company potentially may not be able to recognize reflected benefits in whole or in part. Deferred income tax assets and liabilities are established to reflect the impact of temporary differences between the amount of assets and liabilities recognized for financial reporting purposes and such amounts recognized for tax purposes. These deferred tax assets or liabilities are measured by using the enacted tax rates expected to apply to taxable income in the period in which the deferred tax liabilities or assets are expected to be settled or realized.

The Company had a tax receivable from Penn Mutual of \$140,074 at December 31, 2011.

**Use of Estimates**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States requires management to make estimates and assumptions that affect the amounts reported in the financial statement and the disclosure of contingent assets and liabilities at the date of the financial statement. Actual results could differ from those estimates.

**Concentration of Revenue Relationships**

The Company considers significant revenue relationships to be relationships who account for 10% or more of commission revenue. In 2011, one non-affiliated company accounted for approximately 14% of total revenue. No other companies accounted for more than 10% of total revenue.

**Broker Loans & Advances**

The Company provides certain registered representatives with loans as part of the Company's recruiting and retention strategy for key revenue producing representatives. These loans are generally repayable through bonuses over a 3 year period based upon continued association with the Company. If the representative's association with the Company terminates before the expiration of the loan, the balance becomes immediately due and payable. As of December 31, 2011 no reserve for uncollectible amounts is recorded, as there are no current balances due from terminated representatives. The accrued bonuses of \$527,779 are reflected in other liabilities.

**3. Related Party Transactions**

The Company supports Penn Mutual's professional agents and financial advisors and sells Penn Mutual Variable Life and Variable Annuity Products.

Under the terms of an expense allocation agreement, the Company reimbursed Penn Mutual for services provided on behalf of the Company, including direct and allocated expenses. Penn Mutual reimbursed the Company for services provided on behalf of Penn Mutual, including direct and indirect expenses.

**Hornor, Townsend & Kent, Inc.**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2011**

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As a marketing allowance, the Company pays an 87% ratio of commission expense on commission revenue. Commission Revenue is defined as Commissions from sale of investment company shares, variable insurance products and securities and fee income from investment advisory and asset management. After commissions are paid to registered representatives the residual value is paid to Penn Mutual.

As of December 31, 2011, the Company had a payable of \$130,865 to Penn Mutual resulting from related party transactions.

Other expenses paid to Penn Mutual in 2011 include rent.

**4. Credit Risk**

The Company clears approximately 20% of their securities transactions through a clearing broker. Accordingly, a substantial portion of the Company's credit exposures are concentrated with their clearing broker. In accordance with industry practice, the clearing agent records customer transactions on a settlement-date basis, which is generally three business days after trade date. The clearing agent is therefore exposed to risk of loss on these transactions in the event of a customer's inability to meet the terms of their contracts, in which case the clearing agent may have to purchase or sell the underlying financial instruments at prevailing market prices. Any loss incurred by the clearing agent, on behalf of a customer of the Company, is charged to the Company.

The Company seeks to control the risk of loss by requiring customers to maintain margin collateral in compliance with various guidelines. The Company monitors required margin levels daily and, pursuant to such guidelines, require the customer to deposit additional collateral or to reduce positions when necessary. At December 31, 2011, total margin debt was \$3,627,809. Collateral held in connection with these transactions was \$14,318,446 at December 31, 2011.

**5. Income Taxes**

The Company had a deferred tax asset of \$339,348 at December 31, 2011, and no deferred tax liability. Deferred taxes result primarily from accrued expenses which are not currently deductible for income tax purposes.

The Company recognizes penalties and/or interest as a component of tax expense. During the year ended December 31, 2011, the Company did not recognize any interest. The Company had no interest accrued at December 31, 2011. No penalties were recognized or accrued. Therefore, the total unrecognized tax positions reserve as of December 31, 2011 is \$0.

The Internal Revenue Services ("IRS") has completed their examination of Penn Mutual's consolidated income tax returns through the year 2007. Tax years 2008, 2009, and 2010 are under review. The Company, as previously noted, participates in a tax sharing arrangement with Penn Mutual. Management has not made a provision as no adjustments are expected.

The Company does not anticipate that total unrecognized tax benefits will significantly change in the next twelve months due to the settlement of audits or statute expirations.

**Hornor, Townsend & Kent, Inc.**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2011**

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**6. Employee Benefit Plan**

**Pension Plan**

The employees of the Company are covered under Penn Mutual's funded defined benefit pension plan. Penn Mutual's policy is to fund qualified pension costs in accordance with the Employee Retirement Income Security Act of 1974. Penn Mutual may increase its contribution above the minimum based upon an evaluation of the Penn Mutual's tax and cash positions and the plan's funded status.

Penn Mutual approved the freezing of benefits under its qualified pension plans effective December 31, 2005. Therefore no further benefits are accrued for participants.

**Other Retirement and Post Employment Benefits**

The Company provides, through Penn Mutual, certain life insurance and health care benefits for its retirement employees, their beneficiaries and covered dependents.

**Defined Contribution Plan**

Substantially all the employees of the Company are covered by Penn Mutual's defined contribution plan. Designated contributions of up to 6% of annual compensation are eligible to be matched by the Company.

The Company owed \$37,664 to Penn Mutual as of December 31, 2011. Payments are made regularly throughout the year.

**7. Commitments and Contingencies**

The Company leases its office from Penn Mutual under a noncancelable operating lease expiring March 31, 2012. The Company expects to renew the lease immediately upon expiration.

At December 31, 2011, aggregate minimum rental commitments under all noncancelable leases through March 31, 2012 were \$26,202.

The Company is also a defendant in lawsuits and regulatory matters incidental to its securities business. Management of the Company believes, after consultation with outside legal counsel that the resolution of these various matters will not result in any material adverse impact on the financial position of the Company. However, the results of operations could be materially affected during any period if liabilities in that period differ from the Company's prior estimates and the Company's cash flow would be materially affected during any period in which these materials are resolved. In accordance with ASC 450, "*Contingencies*", the Company has established provisions for estimated losses from pending complaints, legal actions, investigations and proceedings. The ultimate costs of litigation-related charges can vary significantly from period to period, depending on such factors as market conditions, the size and volume of customer complaints and claims and recoveries from indemnification, contribution or insurance reimbursements. As of December 31, 2011, the Company has recorded \$405,995 in connection with these matters. The Company settled \$175,000 as related to these matters in February 2012.

At December 31, 2011, the Company has open regulatory examinations of which the outcome is uncertain.

**Hornor, Townsend & Kent, Inc.**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2011**

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**8. Concentrations**

Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of bank deposits and money market funds. The Company maintains cash balances with financial institutions that exceed the federally insured limit of \$250,000 per institution. The Company also maintains money market funds that are not federally insured. Management of the Company believes it has adequately mitigated this risk by only investing in or through major financial institutions.

**9. Equipment and Capitalized Software**

Equipment	\$ 78,636
Capitalized software	<u>511,897</u>
	590,533
Less: Accumulated depreciation and amortization	<u>(586,435)</u>
Equipment and Capitalized Software, net	<u>4,098</u>
2011 depreciation expense	<u>\$ 4,474</u>

**10. Fair Value of Financial Instruments**

ASC 820 defines fair value as the exchange price that would be received for an asset or paid to transfer a liability (an exit price) in the principal or most advantageous market for the asset or liability in an orderly transaction between market participants on the measurement date. ASC 820 also establishes a fair value hierarchy which requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. The standard describes three levels of inputs that may be used by the Company to measure fair value:

Level 1 – Quoted prices in active markets for identical assets or liabilities without adjustment. The Company's Level 1 assets include investments in BlackRock Money Market Funds which are quoted daily. The Company's Level 1 assets are included in Cash and Cash Equivalents.

Level 2 – Observable inputs other than Level 1 prices, such as quoted prices for similar assets, quoted prices in markets that are not active, or other inputs that are observable or can be corroborated by observable market data for substantially the full term of the assets or liabilities. The Company's Level 2 liabilities are included in securities sold but not yet purchased.

Level 3 – Unobservable inputs that are supported by little or no market activity and that are significant to the fair value of the assets or liabilities. Level 3 assets and liabilities include financial instruments whose value is determined using pricing models, or similar techniques, as well as instruments for which the determination of fair value requires significant judgment by management. The Company does not hold any Level 3 assets.

**Hornor, Townsend & Kent, Inc.**  
**Notes to Consolidated Statement of Financial Condition**  
**December 31, 2011**

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The fair value of an asset or liability may include inputs from more than one level in the fair value hierarchy. The lowest level of significant inputs used to value the asset or liability determines which level the asset or liability is classified in its entirety.

<b>Description</b>	<b>December 31, 2011</b>	<b>Level 1</b>	<b>Level 2</b>	<b>Level 3</b>
<b>Assets</b>				
Cash equivalents				
Money market fund	<u>\$ 3,739,800</u>	<u>\$ 3,739,800</u>	<u>\$ -</u>	<u>\$ -</u>
Total	<u>\$ 3,739,800</u>	<u>\$ 3,739,800</u>	<u>\$ -</u>	<u>\$ -</u>
<b>Liabilities</b>				
Securites sold short				
Municipal Bond	<u>\$ 5,116</u>	<u>\$ -</u>	<u>\$ 5,116</u>	<u>\$ -</u>
Total	<u>\$ 5,116</u>	<u>\$ -</u>	<u>\$ 5,116</u>	<u>\$ -</u>

**11. Subsequent Events**

Management has evaluated the events and transactions that have occurred through February 24, 2012, the date the financial statements were issued, and noted no items requiring adjustment of the financial statements or additional disclosures.

**12. Net Capital Requirements**

As a registered broker-dealer, the Company is subject to the Uniform Net Capital Rule under Rule 15c3-1 of Securities Exchange Act of 1934. The Company meets the exemptive provision of SEC Rule 15c3(k)(2)(ii). The Company computes its net capital requirement using the basic method of computation. Under this method, the Company's requirement may not be less than 6% of aggregate indebtedness or \$250,000 whichever is greater. The regulations also require that the ratio of aggregate indebtedness to net capital not to exceed 15 to 1. At December 31, 2011, the Company had net capital of \$8,015,150 which was \$7,732,146 in excess of its requirement of \$283,004. The Company's net capital ratio was .53 to 1.



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